



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	05/09/00	Bill No:	SB 2000
Tax:	Local Sales and Use	Author:	Polanco
Board Position:		Related Bills:	SCA 17 (Polanco) SB 1982 (Alpert) SCA 18 (Alpert) AB 1396 (Villaraigosa)

BILL SUMMARY:

This bill would make legislative findings and declarations with respect to state-local finance.

ANALYSIS:

Current Law:

The Bradley-Burns Uniform Local Sales and Use Tax Law (commencing with Section 7200 of the Revenue and Taxation Code) authorizes counties to impose a local sales and use tax. The rate of tax is fixed at 1 ¼ percent of the sales price of tangible personal property sold at retail in the county, or purchased outside the county for use in the county. All counties within California have adopted ordinances under the terms of the Bradley-Burns Law

Under the Bradley-Burns Law, the ¼ percent tax rate is earmarked for county transportation purposes, and 1 percent may be used for general purposes. Cities are authorized to impose a sales and use tax rate of up to 1 percent, which is credited against the county rate so that the combined local tax rate under the Bradley-Burns Law does not exceed 1 ¼ percent.

The 1 ¼ percent tax is collected by the Board, primarily from remittances by retailers. The Board currently allocates the tax to cities and counties primarily based on the retailer's place of business (i.e., situs method of allocation).

Proposed Law:

This bill declares the Legislature's intent to change the current system of state-local finance. Specifically, this bill declares that it is the intent of the Legislature to do all of the following:

Identify a stable and reliable source of revenue for local governments that is not susceptible to diversion or preemption by the state.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

Identify budgetary and auditing processes that will ensure the delivery of vital local government services and fully mitigate the expense of complying with state-mandated local programs.

Recommend local government land use policies that can promote long-term growth without jeopardizing local government finances.

Include the consideration of all local government revenue sources, including sales taxes, in a meaningful discussion of the reform of the fiscal relationship between the state and local governments.

Establish bilateral compacts between state and local governments to clarify the state/local relationship.

Background:

"The fiscalization of land use" refers to the concept of examining land use decisions in the context of their revenue and expenditure consequences. Because Proposition 13 reduced the revenues that would be received from property taxes from any particular development (industrial, commercial, or residential), local jurisdictions began to pay even more attention to the fiscal outcomes of land use decisions, and those uses that generated revenues in addition to property taxes have elevated in importance.

The decision by local governments to utilize land for retail sales in order to generate sales tax revenues is one example of the fiscalization of land use. Local governments have engaged in numerous activities to lure retail activity into their jurisdiction, such as zoning excessively for retail, providing sales tax rebates to retailers who locate in their jurisdiction, waiving developer fees, and expediting the permit process.

This bill is intended to address, among other issues, the fierce competition that local entities are now facing in getting as much of the Bradley-Burns (1.0%) sales and use tax revenue as they can.

COMMENTS:

- 1. Sponsor and purpose of the bill.** This bill is sponsored by State Controller Kathleen Connell in an effort to reform the state-local fiscal relationship. According to the Controller, "The current system of municipal financing has resulted in the neglect and deterioration of public services and land use planning decisions that do not serve the public need." The Controller assembled a group of local government, business, and labor representatives to discuss these issues. The State Municipal Advisory Reform Team produced two reports, SMART and SMARTER, and the Controller hopes to implement some the reports' recommendations.

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2. **Amendments to this bill since our analysis of the April 27, 2000 version are minor.** The intent language that addressed local fiscalization of land use issues in the previous version has been replaced with broader language directing the Legislature to include the consideration of all local government revenue sources, including sales taxes, in a discussion of state-local fiscal reform.
3. **Related Legislation:** This bill is intended to work in conjunction with other measures found in a proposed constitutional amendment, SCA 17 (Polanco). Those bills are similar to SB 1982 (Alpert) and SCA 18 (Alpert), another tandem reform package that is sponsored by the California State Association of Counties. The Legislature has created a conference committee centered around another bill, AB 1396 (Villaraigosa), to address issues relating to local government finance in a comprehensive package. The author has stripped the original language in this bill in order to be a part of that discussion.

COST ESTIMATE:

This bill would not result in Board costs.

REVENUE ESTIMATE:

This bill would not impact state revenues.

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